



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

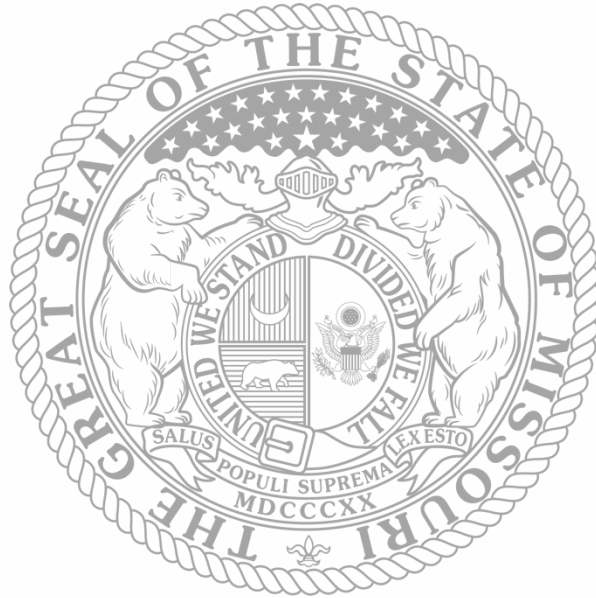
After full consideration and review of the report of the financial examination of Highland Mutual Insurance Company for the period ended December 31, 2022, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Highland Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 30th day of May, 2024.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

HIGHLAND MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2022

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, MO
April 15, 2024

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

HIGHLAND MUTUAL INSURANCE COMPANY

hereinafter referred to as such, as HMIC, or as the Company. Its administrative office is located at 104 East Third Street (P.O. Box 47), California, Missouri 65018, telephone number (573) 796-3614. The fieldwork for this examination began on January 3, 2024, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Highland Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2013, through December 31, 2017. The current examination covers the period of January 1, 2018, through December 31, 2022, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

The Company was originally organized and incorporated on May 29, 1895, as Highland Farmer's Fire and Lightning Insurance Association, and subsequently changed its name to Highland Mutual Insurance Company. The Company has been party to several mergers since this time, and in all instances Highland Mutual remained as the surviving entity. These include mergers with Jamestown Fire Insurance Company in 2002, and Hazel Dell Mutual Insurance Company and German Salem Aid Association of Missouri in 2006.

The Company has a Certificate of Authority dated June 17, 1993, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the last Saturday in February, at the home office of the Company, or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members.

The management of the Company is vested in a Board of Directors that are elected from the general membership. The Board of Directors consists of eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately six to seven times per year.

The Board of Directors elected and serving as of December 31, 2022, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Dale Glenn	Retired Farmer
Sue Ann Loesch	Retired State Employee/Retired Farmer
Jerry Gertl	Farmer/ Mail Carrier
Rodney Schad	Retired Public Servant/ Farmer
Wayne Dummermuth	Farmer
Danny Haldiman	Retired Surveyor/ Farmer
Kenneth Howard	Retired Farmer
Larry Rohrbach	Retired Public Servant/Farmer

Senior Officers

The officers elected and serving, as of December 31, 2022, were as follows:

<u>Name</u>	<u>Office</u>
Dale Glenn	President
Sue Ann Loesch	Vice President
Janet Wolfrum	Secretary
Patrica English	Treasurer

Conflict of Interest

The Company completes annual conflict of interest statements for the disclosure of material conflicts of interest or affiliations by its directors, officers, and agents. The Company has its directors, officers, and agents sign conflict of interest statements on an annual basis. A review of the completed statements noted no material conflicts disclosed.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. The Articles of Incorporation were not amended during the examination period. The Bylaws were amended in October 2019 to clarify quorum requirements at Board of Directors meetings. The minutes of the Annual Membership meetings and Board of Directors meetings were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has four part-time employees. Other than wages, the only benefit provided to the employees by the Company is paid time off.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000. The fidelity bond coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agents. Other insurance coverages carried by the Company include business property and liability coverage.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory And Plan of Operation

The Company is licensed by the Missouri Department of Commerce and Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind, and liability insurance in all counties in the state of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by three licensed agents, who receive a 13% commission of the assessment owed and collected, and \$25 for writing a new member policy. They also receive \$25 per hour of adjusting claims.

Policy Forms and Underwriting Practices

The Company utilizes Missouri Association of Mutual Insurance Companies (MAMIC), Grinnell Mutual Reinsurance Company and American Association of Insurance Services (AAIS) policy forms.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company's premium writings and writing ratios for the period under examination:

(\$000s omitted)

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2022	\$6,197	\$1,082	\$1,493	\$892	\$161	\$(151)	\$ (99)
2021	6,147	934	1,408	855	160	(160)	(5)
2020	6,052	833	1,348	544	165	98	226
2019	5,737	745	1,321	837	172	(40)	124
2018	5,656	787	1,288	423	153	312	384

At year-end 2022, there were 1,590 policies in force.

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2018	2019	2020	2021	2022
Direct Premiums Written	\$ 1,264	\$ 1,300	\$ 1,332	\$ 1,383	\$ 1,469
Reinsurance Assumed:	0	0	0	0	0
Reinsurance Ceded:	336	346	363	361	362
Net Premiums Written	\$ 928	\$ 954	\$ 969	\$ 1,022	\$ 1,107

Assumed Reinsurance

The Company did not assume any premiums during the period under examination.

Ceded Reinsurance

The Company cedes business to Grinnell Mutual Reinsurance Company (the Reinsurer) through separate property and liability reinsurance agreements.

The property reinsurance agreement includes per risk excess of loss and aggregate excess of loss coverages. Under the per risk excess of loss section of the agreement, the Company retains \$150,000 of losses per risk, and the Reinsurer's limit is \$20,000,000 per risk. Under the aggregate excess of loss section of the agreement, the Reinsurer pays 100% of the losses in excess of the attachment point, and the reinsurance coverage is unlimited. The attachment point for 2022 was \$850,000.

The liability reinsurance agreement provides that the Company ceded 100% of policy risks on a quota share basis. The Reinsurer's maximum liability for these policies is \$1,000,000. The Company receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. The CPA firm of Evers and Company, LLC, prepares the Company's tax filings.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2022

Bonds	\$ 2,943,470
Mutual Funds	675,695
Cash on Deposit	2,534,090
Prepaid Income Tax	39,500
Prepaid Premium Tax	4,172
TOTAL ASSETS	\$ 6,196,927

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2022

Unpaid Losses	\$ 301,398
Ceded Reinsurance Premium Payable	30,692
Unearned Premium	748,466
Payroll Tax	633
Accounts Payable (Other)	959
TOTAL LIABILITIES	\$ 1,082,148
Guaranty Fund	150,000
Other Surplus	4,964,779
TOTAL POLICYHOLDER SURPLUS	\$ 5,114,779
TOTAL LIABILITIES AND SURPLUS	\$ 6,196,927

STATEMENT OF INCOME
For the Year Ended December 31, 2022

Net Earned Assessment/Premium Income	\$ 1,057,114
Other Insurance Income	14,590
Net Losses & Loss Adjustment Expense	(865,830)
Underwriting Expenses	(356,517)
Underwriting Income (Loss)	\$ (150,643)
Investment Income	160,651
Investment Expenses	(108,990)
Net Investment Gain (Loss)	\$ 51,661
Other Income	124
Gross Profit or Loss	\$ (98,858)
Federal Income Tax	0
NET INCOME (LOSS)	\$ (98,858)

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2018, to December 31, 2022

(\$000s omitted)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Beginning Policyholder's Surplus	\$ 4,485	\$ 4,869	\$ 4,993	\$ 5,219	\$ 5,214
Net Income (Loss)	384	124	226	(5)	(99)
Ending Policyholder's Surplus	\$4,869	4,993	5,219	5,214	5,115

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

Effective January 1, 2024, German Mutual Insurance Company was merged with and into Highland Mutual Insurance Company.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Highland Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.


VERIFICATION

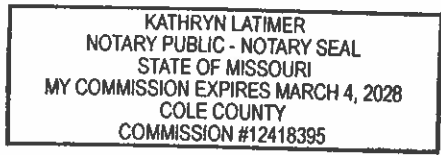
State of Missouri)
) ss
County of Cole)

I, Justin Lamb, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Highland Mutual Insurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Justin Lamb
Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 14th day of May, 2024.

My commission expires: March 4, 2028 
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance